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REMARKS

Attached is a copy of a recent News Release by OPM on the retirement study conducted by TPF&C. As you can see, Dr. Devine has drawn some interesting conclusions. Although the study is being looked at differently by OPM, it is not too far away from the figures sighted by Hay Associates in its total compensation report to the House Committee. You may wish to read this before our retirement meeting on 22 January, Tuesday, at 2:00 p.m.

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NEWS

For immediate release:
January 9, 1985

Contact:
Mark Tapscott

RETIREMENT STUDY SHOWS MAJORITY OF FED EMPLOYEES GET LITTLE BENEFIT; WOMEN AND LOWER-GRADED WORKERS SUBSIDIZE LONG-TERM EMPLOYEES

(WASHINGTON, D.C.)---The U.S. Office of Personnel Management today released a study of the Civil Service Retirement System (CSRS) prepared for the agency by the Washington consulting firm of Towers, Perrin, Forster and Crosby (TPF&C). OPM Director Donald J. Devine termed the study "a comprehensive review of the present retirement system, of the major proposals that have been offered to modify it, and proposals for providing a new system of benefits for employees hired after January 1, 1984." Devine noted that "the TPF&C report basically supports what we have been saying about the present system," and cited an important conclusion of the report: "On the whole, CSRS retirement practices are much more valuable than those in the non-Federal sector, primarily caused by the CSRS early retirement and COLA provisions."

"The purpose of the Study was just to do an outside, technical review of the retirement system," said Devine. "There was, however, one significant new finding: the benefits under the present CSRS are very unevenly distributed among different types of employees."

The TPF&C's report's most startling conclusion was that 45 percent of new entrants into the retirement system have actually been receiving a "negative benefit" because they pay into the system without ever receiving any benefits from it. Another 15 percent have a "normal cost" of benefits amounting only to between zero and 5 percent of pay.

"That is, almost 60 percent of all new federal employees have been receiving virtually no real benefits from the Civil Service Retirement System," Devine said.

(MORE)

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Nevertheless, the overall cost of the federal retirement system remains much higher than they typical private sector plan. "The employer-paid 'normal' cost for CSRS is described in the TPF&C report as being 28.3 percent of payroll, compared with about 18 percent for employers with 1,000 or more employees in the private sector. Our system costs even more than the top 10 percent of the private sector plans," Devine noted. "But the benefits are extraordinarily uneven.

"In fact, about 65 percent of newly-hired federal employees have been receiving lower benefits than the private sector average. But the other 35 percent who receive pensions do much better than the private sector, and represent the overwhelming cost of the CSRS system. Only 13 percent of private sector retirees get benefits that are anywhere near as generous," Devine explained.

The most expensive features of the federal retirement system are the 100 percent cost-of-living allowances (COLAs) for retirees, and the availability of unreduced benefits with 30 years of service as early as age 55 -- still the government's modal retirement age -- and both benefits "differ dramatically from typical non-Federal practice," according to TPF&C.

"The true inequity of the present CSRS system is that it spreads its benefits so unequally," Devine charged. "The report found that in the private sector, virtually no one receives a retirement benefit with a 'normal cost' value of less than 5 percent of pay. Almost 90 percent of private sector employees have retirement benefits with a normal cost value of between 5 and 20 percent of payroll. But in the government, only about 10 percent of employees are found in that range. The others are at the extremes. A large number of federal employees pay into the system with no benefit or very little benefit to themselves, while a relatively small number get very high benefits."

"Who does the paying, and who gets the benefit?" Devine asked. "Women and lower graded employees, since they tend to enter and leave the Federal system within a few years, do most of the paying. They end up subsidizing a retiree population which is predominantly white and male, especially those who retire early."

The study notes that the "normal cost" of providing unreduced retirement benefits at age 55 with 30 years' service is staggering. "The normal cost of this type of retirement (45%) is 61% higher than the plan's overall normal cost (28%) and almost three times that of the non-Federal sector (17%)," according to the report.

Summing up the shortcomings of the CSRS as examined in the consultant's study, Devine said that "not only does our system have an extremely high unfunded liability -- more than a half trillion dollars -- and an average benefit level which is much higher than a typical private sector plan, but this study shows that the benefits are distributed very inequitably. Some do extremely well under the system. Many do very poorly. This is unfair."

(MORE)

TPF&C RETIREMENT STUDY
FACT SHEET

The TPF&C Study bases its analysis of non-Federal retirement practices on a statistically valid sample by ICF, Inc. of retirement practices in the entire non-Federal sector, including private, State and local governments, an nonprofit employers, and organizations in all size categories. In addition to the employer entry age normal cost, the study developed two new measures of the benefits provided by a retirement system. These were the lifetime benefit multiple (LBVM) and the distribution of individual normal costs.

An LBVM represents life time retirement and withdrawal benefits of a plan discounted to reflect the time value of money and expressed as a multiple of final salary. LBVMs are often superior to simple replacement ratios as a measure of benefit adequacy because they are an index of the total benefits received and not just a "snapshot" at one point in time. This is particularly important when comparing retirement plans with varying degrees of COLA indexing.

The distribution of individual normal costs depicts the percentage of new workers who will receive a retirement or withdrawal benefit within a specified employer cost range. This measure provides useful information beyond just the average normal cost for the entire new employee group by analyzing how plan normal costs are distributed among the individual employees in the group.

The major findings of the report were:

- The average employer entry age normal cost of non-Federal retirement plans was determined to be 17 percent of payroll. This figure includes the employer share of the normal cost of Social Security, defined benefit, defined contribution and thrift/savings plans.

- The employer entry age normal costs of the CSRS and the seven options studied ranged from 14.3 percent to 28.3 percent of payroll.

- The current CSRS had the highest cost and the most generous retirement benefits of the plans studied. LBVMs of CSRS were more than twice those of the typical non-Federal plan.

- The CSRS plan features allowing retirement on an immediate unreduced annuity at age 55 with 30 years of service, and providing full CPI indexing after retirement are highly unusual and greatly increase the cost of the system.

- The distribution of individual new entrant normal costs fir the CSRS is much wider than the corresponding distribution for the non-Federal sector and for most other options studied. This means that CSRS provides retirement benefits with much higher costs and withdrawal benefits with much lower costs than other plans examined.

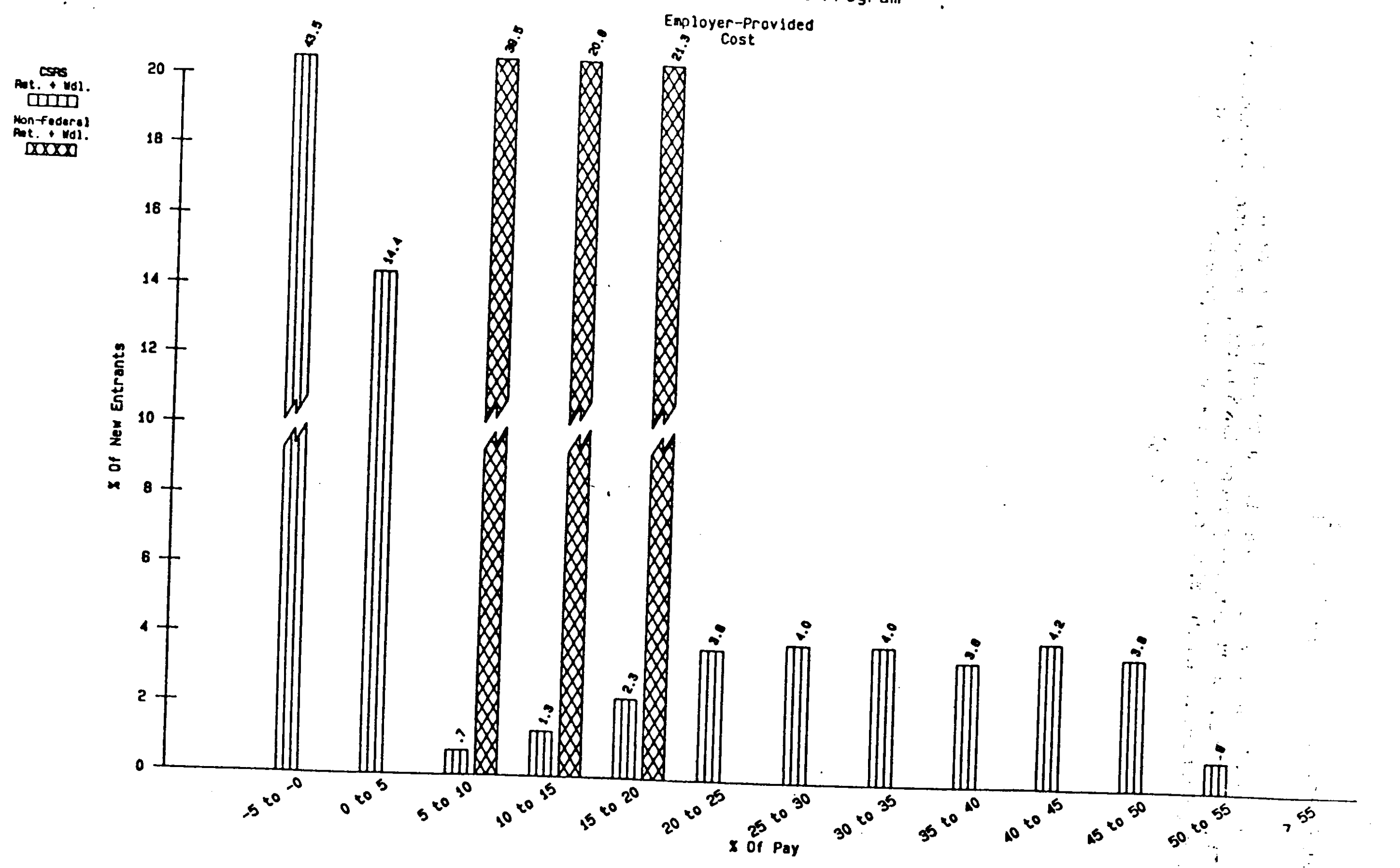
- The replacement ratios of plans with a supplementary defined contribution plan, e.g. thrift or 401(k) plan, are "boosted" substantially by the employee contributions to the plans resulting in high replacement ratios with little additional employer cost.

- Forty percent of the private sector receives no supplemental retirement benefits at all, but depends only upon Social Security.

Chart I-1

New Entrant Distribution By Cost Of Benefits Provided

Comparison of Civil Service Retirement System And
Typical Non-Federal Retirement Program



Prepared by Towers, Perrin, Forster & Crosby under OPM contract.

The OPM chief declared that two important points are very clear in light of TPF&C's findings: "First, the present CSRS is inequitable and too expensive. Second, the need for a new reformed system which is equitable is manifest."

(end)